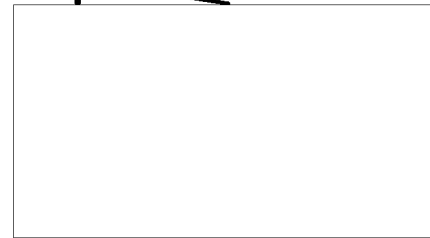




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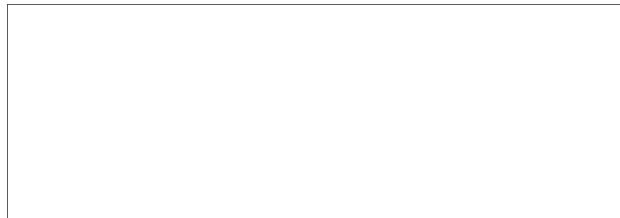
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National Intelligence Daily

**Monday
23 March 1987**



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ROMANIA:**Isolation Increasing**

Irritated by criticism from the West and concerned over pressure from the USSR, Romanian President Ceausescu apparently has ordered strict enforcement of his year-old Decree 408, a sweeping set of restrictions on economic and cultural contacts with foreigners, including applying it to the Soviets and other East Europeans as well as to Westerners. [redacted]

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The decree prohibits access to Romanian production facilities for foreigners except in special protocol rooms and when there is an absolute need. Special rooms are required for meetings of government and party officials with foreigners. The decree also forbids attendance by government, academic, industrial, and other personnel at foreign-hosted social or cultural events without the permission of the Interior Ministry. [redacted]

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Comment: The restrictions appear to be an outgrowth of Ceausescu's sensitivity to mounting criticism of his rule, his heightened sense of vulnerability to outside interference at a time of extreme economic and social problems, and strained relations with the USSR. ~~He is also concerned over efforts in the US Congress to abrogate Romania's most-favored-nation trading status because of its human rights abuses.~~ [redacted]

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Ceausescu will continue to limit foreign access in hopes of hiding human rights abuses and the failure of his economic program. He will stop short of total isolation, however, because he values highly the opportunity to play the role of world statesman. [redacted]

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The importance that ~~US and other~~ Western companies place on quality control inspections will work against increases in joint ventures, coproduction, and trade agreements. Romanian trade with Communist countries, which tend to be more tolerant of quality deficiencies, is less likely to be affected. [redacted]

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USSR-ZIMBABWE:**Arms Deal Likely**

Ongoing talks between the USSR and Zimbabwe are likely to result in the first major arms deal between the two countries.

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Arms negotiations began soon after Zimbabwean Prime Minister Mugabe's visit to Moscow in December 1985.

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Comment: An arms deal may be signed within the next few months, although negotiations could drag out longer because of Mugabe's reluctance to acquiesce in a permanent Soviet military presence, the longstanding mutual distrust between Mugabe and Moscow, and financial constraints on Harare. Further negotiations to work out the financing details and other issues will almost certainly occur before a deal is concluded.

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Mugabe's primary goal in the negotiations is to obtain an improved air defense system as a deterrent to South African attacks. The USSR wants to advance its bilateral political relations with Harare and to gain a foothold for Soviet military advisers, but sales of advanced systems will probably be limited by Moscow's desire to avoid provoking South Africa and by Zimbabwe's limited resources. Mugabe's apparent inclination now to open relations with Afghanistan, probably at Moscow's urging, may have been intended to show the Soviets that he is ready to move the relationship forward politically once an arms deal is concluded.

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~~The UK has also offered weapons to Harare and wants to forestall a Soviet sale.~~

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~~will probably purchase Soviet systems, however, because they provide more capability for a given price and because of Mugabe's dislike of British Prime Minister Thatcher's policies toward South Africa.~~

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If a deal is concluded, it is likely to include a surface-to-air missile system like the SA-2, SA-3, or SA-8 and fighter aircraft such as MIG-21s or MIG-23s. Moscow would probably not sell Harare MIG-29 aircraft because of Soviet judgments that advanced fighters are inappropriate to Zimbabwe's needs and might provoke South Africa. The fighter aircraft would complement Harare's recently acquired Chinese F-7 (MIG-21 type) aircraft.

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SOUTH AFRICA:**Election Uncertainties Growing**

Criticism by Afrikaner moderates of the South African Government's retreat from reform following a rightwing backlash has forced the ruling National Party to seek to cater to both sides in the coming election. [redacted]

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At least five moderates have resigned from the National Party and announced plans to stand as independent candidates in the whites-only election on 6 May. ~~The US Embassy reports that~~ Pretoria is trying to use its influence with domestic media—most of which are run by the government or linked to the National Party—to reduce coverage of the independents. This in turn prompted three prominent Afrikaner journalists to resign in protest against the party's interference in campaign reporting. [redacted]

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Comment: Earlier this year, Pretoria was concerned primarily with the challenge from the right, but growing criticism from moderate whites—many of them longtime party supporters—has complicated the National Party's election strategy. The independent candidates concede that the party will retain its parliamentary majority, but they hope to prove that many Afrikaners support fundamental racial reforms. [redacted]

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Party leaders are now seeking to appeal to both sides, with some candidates promising more reform while others continue to emphasize the limits to change. The party, however, probably will please none of its critics. Indeed, its contradictory rhetoric may create even more confusion, greater volatility within the electorate, and perhaps a less comfortable margin of victory than the party had expected in January, when it called for an early election. [redacted]

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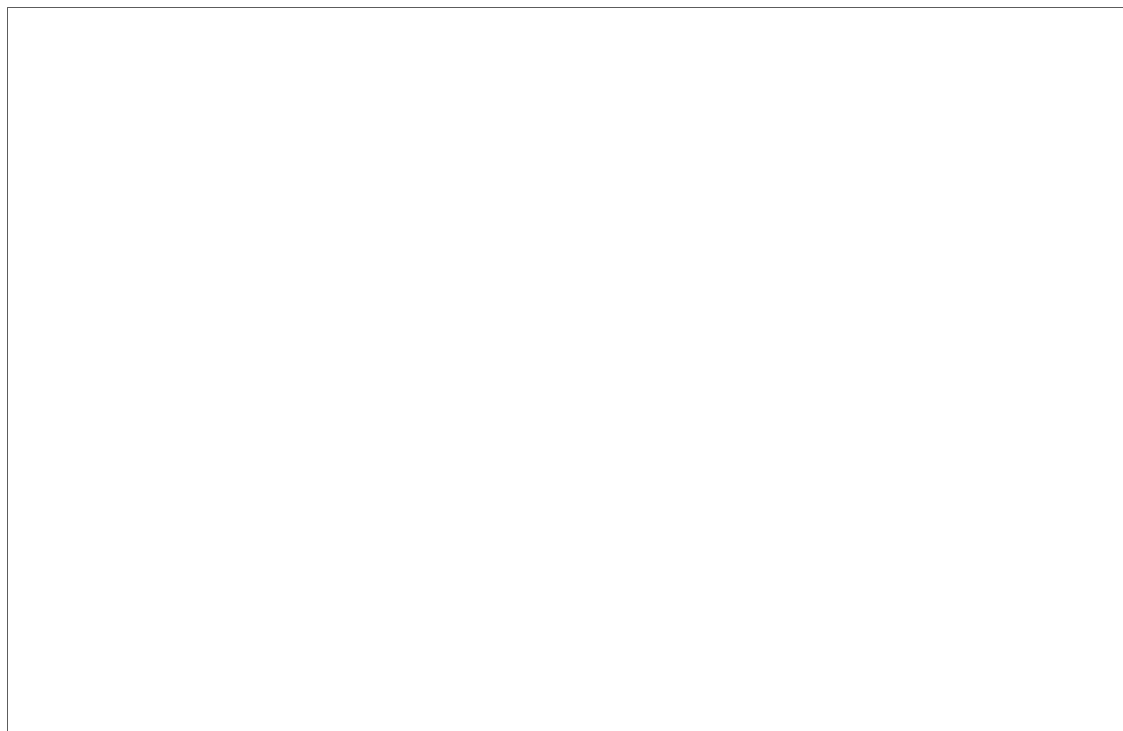
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**INTERNATIONAL: Bonn Declaration Update**

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The nine-year-old Bonn Declaration on hijacking will be expanded modestly at the Western economic summit in Venice this June. The declaration, which already commits the seven industrialized countries to suspend air traffic with any country that fails to extradite or prosecute suspected hijackers, now will cover anyone involved in any form of terrorist action against civil aviation, according to the US Embassy in Rome. The new language will also be extended to future aviation conventions. The Italians expressed their desire for an even broader declaration on terrorism at the June summit. [redacted]

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Comment: Stiffening the Bonn Declaration will fulfill a commitment made by the heads of government at last year's Tokyo summit and is a small step in promoting counterterrorism cooperation. The prospects for a strong new counterterrorism statement at the summit will be limited by concern for the safety of West European hostages, the revelation of US arms sales to Iran, and the current Italian Government crisis. The seven summit countries are likely to resist additional measures that would limit their political flexibility. [redacted]

[redacted]

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MEXICO: Negative Economic Trends

NO

Mexico's use of domestic resources to finance its budget deficit pushed monetary growth to more than 70 percent and inflation to an annual rate of nearly 125 percent last month, according to the US Embassy. It also reports that government borrowing has markedly reduced the availability of credit to the private sector during the past year and has curtailed private investment. Despite higher inflation, the head of the Central Bank is under pressure to reduce interest rates in order to revive economic growth before presidential election campaigning opens this fall.

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Comment: Further inflation and monetary growth are likely because Mexico's \$7.7 billion financial package—finalized Friday—probably will not be released before the end of next month and because preelection pump-priming efforts will continue. If Mexico seeks to curb inflation by artificially supporting the value of the peso, it risks slowing exports of nonpetroleum goods, encouraging imports, and reducing foreign exchange earnings. A public perception that the peso is becoming overvalued, combined with a fall in real interest rates, could lead to a renewed flight of capital.

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CUBA: Poor Sugar Harvest

NO

Cuba's new sugar crop may be its smallest in eight years, according to estimates by the US Interests Section in Havana. A sequence of drought and heavy rains might reduce the harvest to some 6.5 million tons, delaying deliveries and forcing several sugar mills to shut down. Havana has postponed short-term sugar contracts with Western customers; it is buying sugar to fill the gap in its commitments.

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Comment: Havana's sugar exports may fall by as much as 10 percent, damaging its already poor prospects for economic recovery and raising the costs to Moscow in supporting the Cuban economy. Havana probably hopes that it can mitigate Moscow's displeasure over the shortfall in Cuban deliveries by helping the USSR buy sugar.

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In Brief

East Asia

— **British Marconi Company** signed agreement to modernize

16 Chinese diesel submarines, [redacted]

ND [redacted] . may include US-made stabilized gyrocompass . . . will
improve navigation and torpedo fire control. [redacted]

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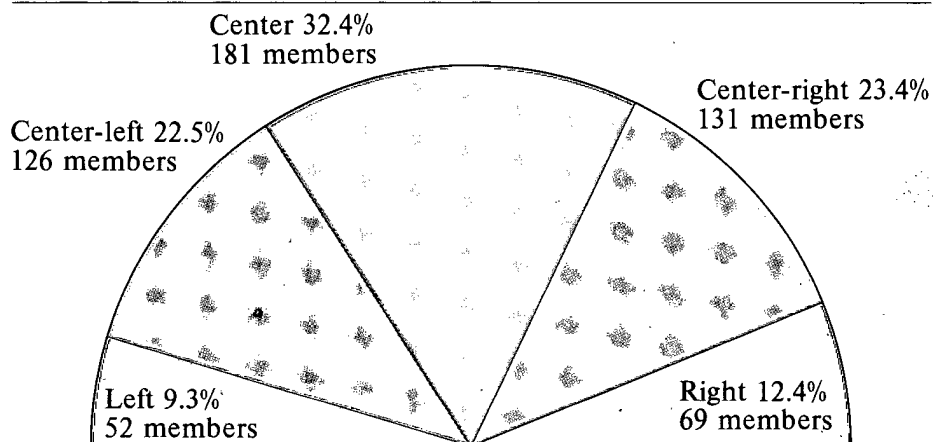
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Brazil: Ideological Composition of the Constituent Assembly



Note: The source is a January 1987 Sao Paulo newspaper.
The total number of Assembly members is 559.

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Special Analysis**BRAZIL:****Writing New Constitution**

The Constituent Assembly, which is beginning the process of drafting a new constitution, is about evenly split over changing to a parliamentary government or retaining the current presidential system but making it more restrictive. President Sarney has already defeated a bid by leftists in the Assembly to curtail his executive powers. Both leftist and some conservative delegates are uniting in opposition to Sarney's policies, however, and he will face an uphill battle to secure a constitution to his liking and to serve his full six-year term.

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The Congress elected in November is doubling as the Constituent Assembly in addition to addressing the regular legislative agenda. The delegates—mostly moderates—come from varied social, educational, occupational, and ideological backgrounds, and many of them espouse highly nationalistic and populist views.

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_____ broad support for liberal constitutional provisions dealing with labor and income redistribution, as well as government intervention in the economy and protectionist trade measures.

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The pivotal center-left Democratic Movement Party, the senior partner in Sarney's coalition, commands a majority of Assembly seats, ~~according to the US Embassy~~, but probably will suffer defections on major votes. It will need the support of its more conservative junior partner, the Liberal Front, at such key junctures. Smaller parties on both left and right that are severe critics of the Sarney administration are better organized and disciplined; they will probably form alliances on an issue-by-issue basis to oppose the government.

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The Stakes

The debate over the type of government Brazil will have is likely to be contentious. In heated discussions last month, the Assembly discussed immediately curtailing Sarney's decree powers and challenged executive privilege by seeking testimony from Finance Minister Funaro ~~(according to the press)~~. Amid strong objections from the leftist opposition, both motions were defeated by the moderate majority.

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~~According to the US Embassy~~, ^{Sixty} 60 percent of the delegates ^{reportedly} favor shortening the presidential term of office. Sarney wants a full six-year term, but key Democratic Movement Party leaders, such as Assembly President Ulysses Guimares, who has presidential aspirations, want a direct presidential election next year or in 1989.

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Sarney's Strategy and Challenges

Sarney is seeking to form a bloc of supporters from elements of his coalition and the conservative opposition party to counterbalance the vocal leftist group challenging his authority.

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To split the left wing of the Democratic Movement Party from the centrist mainstream, Sarney named his own legislative spokesman in the Assembly.

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Because the Constituent Assembly is prohibited from interfering with daily operations of the executive branch, Sarney has some breathing room to formulate a new domestic economic program without fear of it being overhauled by the Assembly. Concern over the depth of his support in the Assembly, however, may compel him to make dramatic economic moves in the coming weeks—such as restricting foreign investment—to restore public confidence and to strengthen his hand in dealing with the Assembly.

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Although this strategy may help Sarney to serve his full term and fashion a political system to his liking, it also will probably magnify the power of nationalists in drafting economic provisions of the constitution. The Assembly later this year is likely to enact constitutional provisions that limit foreign debt payments and restrict free trade. ~~If these steps occur, Brazil's commercial relationships with US and West European banks will deteriorate.~~

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Special Analysis**WESTERN EUROPE: Airbus Industrie's Hard Sell**

Airbus Industrie's marketing campaign for its planned A340, a long-range, widebody aircraft, is aimed primarily at capturing orders from airlines committed to the new McDonnell Douglas MD-11. The A340 program will probably be formally launched this summer and cost some \$3 billion in government financial support in addition to the \$7.5 billion already provided to Airbus. Authorization to proceed would fulfill the West European consortium's long-held goal of offering a full range of aircraft from short-haul jets to long-range widebodies.

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Airbus inducements to MD-11 customers include price breaks and favorable leasing arrangements. According to the US Embassy in Stockholm, Airbus is offering a 25-percent discount on the \$80 million price tag to encourage SAS to switch. The US Embassy in Rome reports Alitalia's letter of intent to purchase MD-11s may be canceled because of the new Airbus offer of a similar discount and free use of substitute aircraft to cover the two- to three-year gap between MD-11 and A340 availability.

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Airbus officials justify their aggressive sales pitch in part by arguing that many of the MD-11 contracts are "letters of intent," not commitments to purchase.

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Even the most optimistic projections indicate that the market is too small for two direct competitors. This presumably is one reason Airbus and McDonnell Douglas continue to talk about combined programs, although neither is likely to compromise significantly on its design.

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Government Support Growing

Backing for Airbus Industrie remains strong in Western Europe, although factions in each of the member governments—especially West Germany—are concerned that the consortium will grow increasingly costly over the next five years if the A340 and a twin-engine spinoff—the A330—are launched and the narrow-body A320 moves to full production. Future subsidies for the latter could add another \$1 billion to the total outlay for Airbus.

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The US request for GATT consultations to discuss Airbus subsidies has stiffened the resolve of West European governments, particularly France, to hold their ground against US charges that financial aid to

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Airbus distorts the aircraft market. Previous US pressure on Airbus tended to minimize the consortium's internal differences. Airbus believes its policy is in line with GATT standards. France believes that US domination of the world airline inventory and the size of the US research and development and defense budgets are fundamentally trade distortive

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Airbus is likely to attain its goal of a one-third share of the world's market for large jet aircraft in the 1990s, a market now estimated at 3,700 aircraft. The aggressive marketing campaign now under way on the A330/A340 is likely to ensure a minimum of five airline customers for the initial production run and firm orders for at least 50 aircraft.

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